No. 03-1049

MAR 26 2004

IN THE

Supreme Court of the United States

IDAHO POTATO COMMISSION,

Petitioner,

—v.—

M & M PRODUCE FARM & SALES D/B/A M & M PRODUCE, M & M PACKAGING, INC., MATTHEW ROGOWSKI AND MARK ROGOWSKI,

Respondents.

PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

RESPONDENTS' BRIEF IN OPPOSITION

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March 26, 2004

QUESTIONS PRESENTED FOR REVIEW

Are issues of federal preemption of state law implicated by a court's consideration of public policy as expressed in the Lanham Act when deciding under principles of contract law whether a provision in a contract of adhesion cannot be enforced because it is unconscionable or void as against public policy?

If preemption is implicated, does the Lanham Act preempt application of the doctrine of licensee estoppel and "no challenge" contract provisions with respect to certification marks?

PARTIES TO THE PROCEEDINGS

All Parties are listed in the caption.

Respondent M & M Packaging, Inc. is not a publicly held company and does not have any parent company which is publicly held. Respondent M & M Produce Farms & Sales is a general partnership.*

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*Although not a party to this action, M & M Produce Farms and Sales, Inc., a New York corporation formed after this civil action was commenced, has a financial interest in the outcome of this case due to its affiliation with Respondents Matthew Rogowski and Mark Rogowski. It is not publicly held and does not have any publicly held parent companies.

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RESPONDENTS' BRIEF IN OPPOSITION

Respondents M & M Produce Farms & Sales ("M & M"), M & M Packaging, Inc., Matthew and Mark Rogowski respectfully urge this Court to deny the petition for a writ of certiorari to the United States Court of Appeals for the Second Circuit filed by the Idaho Potato Commission (the "IPC").

OPINIONS BELOW

Another opinion of the United States District Court for the Southern District of New York in this case, its April 26, 2000 Memorandum and Order, is reported at 95 F. Supp. 2d 150 (S.D.N.Y. 2000). That memorandum and order did not address licensee estoppel. An unreported memorandum and order of the District Court dated June 11, 2002 is reproduced in the appendix hereto. Resp. App. 1a-6a.

JURISDICTION

This Court has jurisdiction pursuant to 28 U.S.C. § 1254(1).

STATUTES OR OTHER PROVISIONS INVOLVED

Additional relevant portions of the Lanham Act, 15 U.S.C. §§ 1051-1128, are reproduced at Resp. App. 7a-13a.

STATEMENT OF THE CASE

A. Statutory Background

The rights of a certification mark registrant differ significantly from those of a trademark registrant. While a trademark gives a specific producer of a product exclusive rights, a certification mark "must be made available without discrimination to certify the goods . . . of any person who

maintains the standards or conditions which such marks certifies.'" *Community of Roquefort* v. *William Fehndirch*, Inc. 303 F.2d 494, 497 (2d Cir. 1962) (citation omitted). A certification mark is intended to be used by a person other than its owner while a "trademark" is used to identify and distinguish a registrant's own goods from those manufactured or sold by others. 15 U.S.C. § 1127. Courts and commentators uniformly note that a certification mark is "a special creature created for a purpose uniquely different from that of an ordinary service mark or trademark." *In re Florida Citrus Comm'n*, 160 U.S.P.Q. 495, 499 (T.T.A.B. 1968); see also *Midwest Plastic Fabricators, Inc.* v. *Underwriters Labs., Inc.*, 12 U.S.P.Q. 2d 1267, 1270 n.6 (T.T.A.B. 1989) (noting differences between certification mark and trademarks), *aff'd*, 906 F.2d 1568 (Fed. Cir. 1990); 3 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 19:91, at 19-201 (4th ed. 2003).

When applying for registration on the Principal Register of the United States Patent and Trademark Office (the "PTO"), a certification mark owner must designate what the mark certifies. 3 McCarthy, *supra* § 19:92, at 19-205 ("applicant for registration of a certification mark must specify . . . the conditions under which the certification mark is used"); *id.* § 19:97, at 19-215 (reproduction of PTO Form 4.9 "Certification Mark Application"); Pet. at 26 (noting services that AAA Four Diamond Award certifies and citing to Reg. No. 2,563,673); Reg. No. 2,161,268 (noting that mark "certifies that the sailboat and its sails strictly conform . . . to the official plans and specifications of the [mark owner] for a 'STAR CLASS' yacht"). Once the mark is registered, its owner cannot refuse to allow someone to use the marks other than failure of the goods or services to meet the grounds for certification that was designated in the application. 3 McCarthy, *supra* § 19:97, at 19-213 ("certifier cannot refuse to license the mark to anyone on any ground other than the standard it has set").

The Lanham Act prohibits registration of marks which are primarily geographically descriptive. 15 U.S.C. § 1052(e)(2). "Congress has expressly left accessible to all potential users those names of subdivisions of the earth -- regions, nations, counties, towns, rivers, lakes, and other natural and artificial geographical units -- which could be employed to draw public attention to the origin of a product or the situs of a business." *Worlds Carpets, Inc.* v. *Dick Littrel's New World Carpets*, 438 F.2d 482, 485 (5th Cir. 1971); see also *Delaware and Hudson Canal Co.* v. *Clark*, 80 U.S. (Wall.) 311, 324 (1871) ("it is obvious that the same reasons which forbid the exclusive [use] of generic names of those merely descriptive of the article manufactured and which can be employed with truth by other manufacturers, apply with equal force the appropriation of geographical names, designated districts of country"). Congress carved out one exception to the prohibition against registration of geographically descriptive terms – marks certifying origin. 15 U.S.C. § 1052(e)(2).

Once a mark is registered upon the Principal Register, its owner receives many new rights under the Lanham Act. See *Park 'N Fly, Inc.* v. *Dollar Park and Fly, Inc.*, 469 U.S. 189, 193-94 (1985) (discussing rights conferred by Lanham Act on federally registered marks). The certificate of registration is "prima facie evidence of the validity of the mark and of the registration of the mark, of the registrant's ownership of the mark, and of the registrant's exclusive right to use the registered mark." 15 U.S.C. § 1057(b). Congress provided that under certain conditions the right to use a mark can become "incontestable." 15 U.S.C. § 1065. Once a mark becomes incontestable, the registration is conclusive proof of the mark's validity and the registrant's right to use it. 15 U.S.C. § 1115(b); *Park 'N Fly*, 469 U.S. at 194. Congress specifically provided that a certification mark registration can be cancelled at any time for four enumerated reasons. 15 U.S.C. § 1064(5).

Congress also provided for cancellation at any time of the registration of any mark if it becomes the generic name for the goods or services. 15 U.S.C. § 1064(3); *Park 'N Fly*, 469 U.S. at 194; see *Illinois High School Ass'n* v. *GTE Vantage, Inc.*, 99 F.3d 244, 247 (7th Cir. 1996) (Posner, J.) (discussing generic marks including "thermos" and "aspirin"); 2 McCarthy, *supra* § 12.1, at 12-6 to 12-7.

B. Factual Background

In 1937, Idaho growers and produce shippers established the IPC to advertise fruits and vegetables grown in Idaho. The Idaho legislature granted their association the statutory right to tax growers. Eventually, the IPC became a self-governing agency of the State and focused solely on potatoes. It spends more than half its $10 million annual budget advertising Idaho potatoes. (Pet. App. 86a; *id.*24a.)

In 1956, the IPC obtained its first registration for a certification mark on the PTO's Principal Register for a circular seal within which is an outline map of Idaho and "Grown in Idaho." (See Pet. App. 45a.) This mark certifies the "regional origin of produce." In January 1966, the IPC obtained a registration from the PTO for the word mark "IDAHO"[1] in connection with potatoes and onions certifying that "goods so marked are grown in the State of Idaho." (Pet. App. 45a.) The IPC has since obtained three additional federal registrations for

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[1] The lower courts erroneously reported that this registration was for "the word 'IDAHO' in its distinctive font." (Pet. App. 22a; *id.* 3a.) The Petition contains the same error (Pet. at 6), but in the District Court the IPC contended that this mark was the word in any form and the Certificate of Registration does not refer to a distinctive font. See Reg. No. 802,418 (Jan. 18, 1966).

stylized certification marks to be used to certify regional origin of potatoes grown in Idaho. (Pet. App. 45a-46a.)

Potatoes come in several different varieties. Russet is the most famous variety of Idaho potato. Russet potatoes are grown in a number of states. The IPC contends that consumers perceive Russets from Idaho as being the "Cadillac" of baking potatoes. (Pet. App. 23a.)

The IPC's uses its certification marks to control tightly the Idaho potato industry throughout the United States.

> Under the IPC's regulations, every Idaho potato grower must be licensed, and must place the Idaho mark upon containers and shipping documents for its harvest; no Idaho potato may leave the State of Idaho without the certification mark; every packer and shipper of Idaho potatoes must be licensed; every out-of-state purchaser of Idaho potatoes must be licensed to use the [certification] marks and every repacker and reseller who purchases Idaho potatoes in bulk from a licensed out-of-state vendor must also be licensed.

(Pet. App. 24a-25a.) The IPC checks a potential licensee's credit and background. The IPC also imposes other requirements that do not have anything to do with certifying the regional origin of potatoes. The IPC's license agreements are pre-printed forms, which are not subject to negotiation but instead are offered on a "take it or leave it" basis.

The Unites States Department of Agriculture (the "USDA") comprehensively regulates the produce industry pursuant to the Perishable Agricultural Commodities Act ("PACA"). 7 U.S.C. §§ 499a-499t. The USDA requires produce packers to have a

PACA license. 7 C.F.R. § 46.3 (2003). The loss of a PACA license spells the demise of a produce packer. The USDA may revoke a PACA license if a packer has materially and knowingly engaged in misbranding, i.e., incorrectly identified the origin or variety of produce. 7 U.S.C. § 499b(5); 7 C.F.R. § 46.45 (2003); see *Potato Sales Co.* v. *Department of Agriculture*, 92 F.3d 800 (9th Cir. 1996) (USDA properly sanctioned seller of New Zealand apples packaged as Washington apples). The USDA, not the IPC, inspects and certifies potatoes leaving Idaho for sale elsewhere in the United States.

A packer may lawfully pack and sell Russet potatoes grown in different states in consumer size bags that describe the contents as "russet potatoes." *Id.* The prices packers pay for Idaho potatoes are occasionally cheaper than the prices they pay for the same variety from other states. The IPC's regulations, however, prohibit packers from obtaining Idaho potatoes to fulfill generic orders for potatoes.

M & M, including M & M Packaging, is a small family business devoted mainly to growing labor intensive root crops, but not potatoes, on a small farm in upstate New York. These crops are seasonal, so M & M also repacks potatoes to stay in business throughout the year. M & M has a PACA license.

In order to repack potatoes from Idaho, M & M entered into a licensing agreement with the IPC. No negotiation took place between M & M and the IPC concerning the terms of the license. While M & M was an IPC licensee, it would purchase potatoes in bulk from licensed Idaho potato vendors and would repackage those potatoes into five-pound bags bearing one or more of the IPC's certification marks. M & M's largest customer for its packing business was G&T Terminal Packaging Inc. ("G&T"), a reseller of produce and an IPC

licensee. G&T's primary customer base is supermarket chains, which are sophisticated and experienced customers for produce. G&T in essence used "M & M as an agent or independent contractor to repack G&T's potatoes in five pound bags with G&T's name on them as seller and then deliver the potatoes to various customers of G&T, returning the delivery tickets to G&T." (Pet. App. 29a.)

In February 1995, the IPC revoked M & M's license when M & M was unable to produce certain of its records which had been destroyed in a fire 18 months earlier. (Pet. App. 30a; see also Resp. App. 4a-5a.) Since the IPC revoked M & M's license to use the certification marks, it has continuously denied M & M's requests to use them.

On two occasions during the pendency of this action, M & M's orders for rail cars of Idaho potatoes were cancelled. The sellers told M & M that the IPC had ordered them not to sell Idaho potatoes to M & M. In one case, the rail cars had already reached New York State and M & M had already paid the freight charges. As a result of M & M's inability to obtain bulk quantities of Idaho potatoes to fulfill orders, G&T began having its five-pound bags packed in Idaho.

C. Proceedings Below

1. The District Court upheld the IPC's licensee estoppel position early during the pre-trial proceedings and dismissed M & M's counterclaims for cancellation of the various certification marks. The parties did not conduct discovery concerning those claims.

Throughout the district court proceedings, the IPC primarily contended that M & M had sold misbranded or counterfeit potatoes. (*See* Pet. App. 77a, n.6.) The jury concluded that the

IPC did not prove that M & M had sold as Idaho potatoes, potatoes not grown in Idaho, a conclusion that the District Court described as "inescapable." (Pet. App. 32a; *id.* 34a-35a; Resp. App. 2a & 4a.) The IPC nonetheless continued to deny M & M and M & M Packaging a license to use the "Idaho" certification mark, and the District Court denied Respondents' post-trial application for a mandatory injunction compelling the IPC to grant a license to them. (Resp. App. 5a-6a.)

2. Respondents urged the Second Circuit not to enforce the no challenge provision based on legal principles applicable to contracts of adhesion, containing terms that are unconscionable or against public policy.

REASONS FOR DENYING THE PETITION

I. THE SECOND CIRCUIT'S DECISION IS BASED ON CONTRACT LAW AND THUS DOES NOT CONFLICT WITH PRECEDENT OF THIS COURT OR OF ANY COURT OF APPEALS CONCERNING PREEMPTION

Although not explicitly stated in its opinion, the Second Circuit based its decision that the no challenge provision of the license agreement is unenforceable on general principles of contract law because it is a term in a contract of adhesion that violates public policy and is unconscionable. A contract of adhesion is one "that is offered by the authoring party on a take it or leave it basis, rather than being negotiated between the parties." *Northwestern Nat'l Ins. Co.* v. *Donovan*, 916 F.2d 372, 377 (7th Cir. 1990). The IPC's license agreement was (and is) offered to potential licensees on such a "take it or leave it" basis. Agreeing to the terms of that contract is the exclusive means by which a merchant can use the IPC's certification marks indicating truthfully the Idaho origin of its potatoes. The

IPC has also established a system to prevent out-of-state packers from obtaining fresh potatoes from Idaho in bulk quantities unless they agree to the terms of that contract. The terms of the license agreement are and were non-negotiable. In order to use the marks a potato packer has no choice but to agree to sign the IPC license and purportedly by doing so to surrender the right to ever challenge the validity of them. "The concept of adhesion contracts . . . is a notion evolved from public policy that refused to enforce a contract provision when it offends basic notions of civility and fair play." *Klos* v. *Polskie Lini Lotnicze*, 133 F.3d 164, 168-69 (2d Cir. 1997); see also *Lake* v. *Equitable Sav. & Loan Ass'n*, 674 P.2d 419, 423 (Idaho 1983) (noting that under Idaho law contract provisions may be unenforceable as against public policy) .

A court may refuse to enforce the contract, or may enforce it without the unconscionable term, or may limit the application of any unconscionable term to avoid an unconscionable result where a contract or term is unconscionable at the time the contract is made. Restatement (Second) of Contracts § 208 (1981). A determination of unconscionability is made in light of the contract's setting, purpose and effect, considering whether there is gross disparity in the exchange and gross inequality of bargaining power with terms unreasonably favoring the stronger party. *Id.* cmts. a, c & d. In determining whether a contract of adhesion is unconscionable, one factor to consider is whether the "coerced" party had any alternatives. *Klos*, 133 F.3d at 169 (citing *Carnival Cruise Lines, Inc.* v. *Shute*, 499 U.S. 585, 594-95 (1991)). In this case, M & M was a "coerced" party because it did not have any alternative other than signing the IPC's license agreement if it wanted to purchase in bulk potatoes grown in Idaho and apply the IPC's certification marks (including the word "Idaho") to packages containing Idaho-grown potatoes. The one-sided license agreement essentially provided that the IPC, and only the IPC,

could terminate the agreement and/or pursue other remedies for an alleged breach. It further included the estoppel provision.

The Second Circuit, in determining whether the estoppel provision subverts the public policies underlying the Lanham Act, properly balanced the policy at issue and the degree to which that policy is undermined by enforcement of the contract against the public interest in seeing private agreements enforced. See *New England Mutual Life Ins. Co.* v. *Caruso*, 535 N.E.2d 270 (N.Y. 1989); *Lake*, 674 P.2d at 423. The policies underlying the Lanham Act, encouraging competition, are completely undermined by the estoppel provision of the IPC's license agreement. *Park 'N Fly*, 469 U.S. at 193 ("Because trademarks desirably promote competition, and the maintenance of product quality, Congress determined that 'a sound public policy requires that trademarks receive nationally the greatest protection that can be given them.'"); *Intel Corp.* v. *Terabyte Int'l, Inc.*, 6 F.3d 614, 618 (9th Cir. 1993) (explaining policy concerns sought to be furthered by Lanham Act).

Congress determined that public policy requires that certification marks can be cancelled at any time "on the ground that the registrant . . . discriminately refuses . . . to continue to certify the goods or services of any person who maintains the standards or conditions which such mark certifies." 15 U.S.C. § 1064(5)(D). The estoppel provision precludes the entire class of persons who would be likely to challenge the IPC's certification marks on this ground from doing so, thereby frustrating the policies embodied in the Lanham Act. In fact, the T.T.A.B. has suggested that only persons who have been refused certification after meeting the prescribed standards have standing to seek cancellation of a certification mark. See *American Auto. Ass'n* v. *National Auto. Ass'n*, 127 U.S.P.Q. 423, 427-28 (T.T.A.B. 1960); 3 McCarthy, *supra* § 20:61, at

20-116. The practical result of the IPC's form contract is the removal of the IPC from the purview of the Lanham Act, providing the IPC with free reign to act in whatever manner it chooses without fear of reprisal for its illegal conduct. When weighed against the public interest in seeing contracts enforced, the balance tips decidedly in favor of holding the estoppel provision unenforceable as a matter of contract law.

II. THE DECISION BELOW IS NOT INCONSISTENT WITH PRECEDENTS OF OTHER COURTS CONCERNING *LEAR* AND LANHAM ACT MARKS

The Second Circuit correctly noted that the question resolved by its decision had "not yet been squarely decided by any federal circuit court." (Pet. App. 8a.) First, no other Court of Appeals has analyzed the applicability of the law governing contracts of adhesion to certification marks. Second, no other Court of Appeals has addressed the applicability of the licensee estoppel doctrine to certification marks. As discussed earlier, the Lanham Act differentiates certification marks from trademarks in many key aspects. It is the very nature of the certification mark, the requirement of "compulsory licensing," which prevents the doctrine of licensee estoppel from being applicable to certification marks.

III. THE IPC DID NOT PRESERVE THE QUESTION PRESENTED FOR REVIEW BY THIS COURT

Before the Second Circuit, the IPC contended that the *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969), decision did not apply solely because in this case there was an express contractual provision while *Lear* involved an implied contractual term. (See Pet. App. 12a ("IPC maintains that the *Lear* balancing test is inapplicable because unlike the contract in *Lear*, which was silent concerning the rights of the licensee to challenge the

patent, the contract signed by M & M specifically precluded M & M from challenging the IPC's marks.").) The IPC's brief did not even cite to this Court's opinion in *Aronson* v. *Quick Point Pencil Co.*, 440 U.S. 257 (1979). The IPC also did not ask the Second Circuit to consider the issue as one of federal preemption of state contract law, but chose instead to permit the Second Circuit to address the issue as one involving M & M's claim that the IPC license agreement was a contract of adhesion and unenforceable as a matter of state law.

After the Second Circuit issued its opinion, the IPC petitioned for en banc rehearing. Once again, the IPC did not mention *Aronson* or preemption. In its rehearing petition, the IPC described the prior case law as holding "that there is a basis for refusing to enforce a provision in a trademark-related contract, but, only if the provision violates the public policy behind trademark law of preventing confusion to the public." (Idaho Potato Commission's Petition for En Banc Rehearing 9, *Idaho Potato Comm'n* v. *M & M Produce Farms & Sales*, Nos. 02-7792 (L) & 02-7818 (XAP) (July 25, 2003).) Referring to what it then perceived to be the test annunciated by the prior case law, the IPC told the Second Circuit that it had

> no objection to this test being applied to the instant case. Indeed, **it is the only test that should be applied**.

(*Id.* (emphasis added).) The IPC complained only about the panel's view that the appropriate policy expressed in the Lanham Act is "free and open competition among producers and distributors of the certified product" rather than prevention of consumer confusion. (*Id.* at 13.) Having told the Second Circuit that one test applied, the IPC should not now be heard that a different one applies.

IV. PRACTICAL CONSIDERATIONS WARRANT DENIAL OF THE PETITION

A. The Judgment From Which Review Is Sought Is Not Final

The District Court's August 26, 1998 decision that M & M could not challenge the validity of the IPC's certification marks was rendered before Respondents had an opportunity to conduct discovery on the issues relevant to their counterclaims.

In August 1998, Majestic Produce Corp. was a party in one of the consolidated actions and was clearly not bound by license estoppel from pursuing cancellation of the IPC's marks. (Pet. App. 71a.) In considering the grounds for cancellation -- including a challenge of the right of a certification mark owner to require a license agreement before its mark can be used -- the District Court identified areas that would need further development of the facts before trial. (Pet. App. 82a - 83a; *id.* 88a; *id.* 92a; *id.* 95a.) After that decision, the parties and the court spent a significant amount of time addressing the IPC's assertion of Eleventh Amendment immunity and applicability of the State Action Doctrine. See *Idaho Potato Comm'n* v. *M & M Produce Farms & Sales*, 95 F. Supp. 2d 150, 151-54 (S.D.N.Y. 2000), *aff'd sub nom., Hapco Farms, Inc.* v. *Idaho Potato Comm'n*, 238 F.3d 468 (2d Cir. 2001). By then, Majestic Produce had filed for bankruptcy and no discovery took place on the issues raised by the claims seeking cancellation of the marks. Obviously, the trial in this action did not involve any issue concerning the validity of the IPC's marks or whether they should be cancelled. Accordingly, the parties have not had an opportunity to develop a complete record in the case for the Court to review. The IPC essentially asks this Court to become involved in the pleading stage of this issue.

This Court has repeatedly expressed its reluctance to exercise its certiorari jurisdiction to review interlocutory judgments of the courts of appeals. See, e.g., *Brotherhood of Locomotive Firemen* v. *Bangor & Aroostock R. Co.*, 389 U.S. 327, 328 (1967) ("because the Court of Appeals remanded the case, it is not yet ripe for review by this Court"); *Hamilton-Brown Shoe Co.* v. *Wolf Bros. & Co.*, 240 U.S. 251, 258 (1916) ("except in extraordinary cases, the writ is not issued until final decree"); see also *Mazurek* v. *Armstrong*, 520 U.S. 968, 975 (1997) (noting exception to general rule because Court of Appeals' judgment was both "clearly erroneous" and produced "immediate consequences" in form of injunction against State of Montana).

The Second Circuit's decision is not clearly erroneous and it has no immediate consequences. The Court should decline the IPC's request to forgo its usual practice of awaiting a final judgment before exercising certiorari jurisdiction.

B. The IPC Recently Appealed To the Ninth Circuit A Final Judgment Which Brings Up For Review An Order Following The Second Circuit's Decision

The IPC commenced a civil action against M & M's largest customer, G&T, in the United States District Court for the District of Idaho concerning G&T's use of M & M to repack its Idaho potatoes.[2] That lawsuit involved some of the very same potatoes which were the subject of this action, so G&T intervened in this action. Like M & M, G&T asked the New

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[2] The docket sheet for that case, *State of Idaho Potato Comm'n* v. *G&T Terminal Packaging, Inc.*, Case No. CIV 98-0088-S-DOC, is available through the Idaho federal courts' website, http://www.id.uscourts.gov, which also contains links to imaged copies of the documents in the court's file.

York court to cancel the IPC's certification marks. Eventually, the district court dismissed G&T's intervention complaint.

On June 27, 2002, the Idaho district court granted summary judgment to the IPC for breach of contract damages arising from G&T's efforts to cancel the IPC's certification marks. G&T filed a motion for reconsideration based on the Second Circuit's decision below. The Idaho district court held:

> *In sum*, G&T has met its burden of showing a change of law of a strongly convincing nature to persuade the Court to reverse its prior decision. The June 27 Order was entirely premised upon a New York District Court Order which has been reversed by the Second Circuit. The Second Circuit held that G&T was not contractually estopped from challenging the validity of the IPC's license agreement. While recognizing that the Second Circuit's decision is not binding on this Court, the Court finds the reasoning and conclusion of the Second Circuit decision applicable and persuasive. Accordingly, G&T's counterclaim against IPC in New York District Court, challenging the IPC's licensing arrangement, did not constitute a breach of contract.

Order Granting Defendant's Motion for Reconsideration and Vacating June 27 Order, 12-13, *The State of Idaho Potato Comm'n* v. *G&T Terminal Packaging, Inc.*, Case No. Civ 98-0088-S-DOC (D. Id. Oct. 24, 2003).

On March 17, 2004, the IPC filed a timely appeal to the United States Court of Appeals for the Ninth Circuit from the final judgment entered in the Idaho district court. In its Notice of Appeal, the IPC specifically referred to the October 24, 2003

Order as one of the orders for which it intends to seek review by the Ninth Circuit. This Court should deny the petition in this case because the Second Circuit's judgment is not final and the IPC will shortly have the opportunity to present the question to the Ninth Circuit on a fully developed record.

C. The Dire Predictions Of The IPC And The *Amici Curiae* Are Undercut By The Dearth Of Similar Cases Since The 1989 Decision Of The Trademark Trial and Appeal Board Rejecting Licensee Estoppel For Certification Marks

The IPC and the *amici curiae* predict that the Second Circuit's decision will result in a dramatic increase in litigation over the validity of certification marks. The IPC further claims the certification marks owners, which it describes as being mainly "government entities with limited budgets (like [itself]) or non-profit organizations," will be hampered by the expense and risk of defending such claims. (Pet. at 26.) Both arguments are wrong.

First, it has been almost fifteen years since the Trademark Trial and Appeal Board held that "there can be no license estoppel involving a certification mark because of the unique character of a certification mark and the basic difference in concept between a certification mark . . . and a trademark." *Midwest Plastic Fabricators*, 12 U.S.P.Q.2d at 1270 n.6. The T.T.A.B.'s decision is addressed in the leading treatise on United States trademark law. 2 McCarthy, *supra*, § 18.63 at 18-110.4; *id.*, § 19:92, n.6. Despite the passage of so much time, no other court has issued a reported decision directly on point. *Cf. National Bd. for Certification in Occupational Therapy, Inc.* v. *American Occupational Therapy Ass'n*, 24 F. Supp. 2d 494, 501 (D. Md. 1998) (holding licensee estoppel not applicable because agreement was "more a distribution agreement than a

traditional 'license'"). With the exception of the case before this Court and the related case involving G&T, the record is devoid of any other case involving these same issues since *Midwest Plastic Fabricators*.

Second, the record in this case concerning the financial positions of the parties does not support the IPC's contentions. The IPC has a $10 million annual budget and has spent more than $1 million prosecuting this case. On the other hand, Respondents are family farmers who earned a profit of less than $42,000 packing Idaho potatoes in bags on which Respondents used the IPC's marks without its permission.[3] The economic incentive here to challenge the IPC's marks are unique because no competing certification mark owner exists and the IPC has used its marks to prevent out-of-state packers like M & M from being able to buy potatoes from Idaho in bulk. Moreover, because the IPC claims all rights to use the word "Idaho" in connection with potatoes, Respondents cannot pack Idaho potatoes (the supposed "Cadillac" of baking potatoes) without the IPC's blessing. By way of contrast, the "CERTIFIED ANGUS BEEF" certification mark does not prevent a butcher from selling Angus Beef. See *American Angus Ass'n* v. *Sysco Corp.*, 829 F. Supp. 807, 825-26 (W.D.N.C. 1992).

D. It Is More Appropriate for Congress To Deal With This Issue

Congress has specifically provided that certification marks, unlike trademarks, are subject to cancellation at any time on four designated grounds. The IPC's license agreement has the

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[3] Following the trial, however, the District Court found that "the record at trial . . . does not provide the IPC with an excuse for not granting M & M a license." (Resp. App. 5a.)

effect of overriding Congressional intent as expressed in the Lanham Act with respect to the only class of persons with any real incentive to pursue cancellation if a certification mark owner discriminately refuses to continue to certify their conforming goods.[4] If the burdens imposed by Section 13(5) are too onerous for certification mark owners like the IPC, Congress, not this Court, is the appropriate body to remedy the situation. In 1999, Congress amended this section by adding the last paragraph clarifying the meaning of one of the four enumerated grounds for cancellation. Pub. L. 105-330, § 301, 112 Stat. 3070 (Oct. 30, 1998). That paragraph was added at the urging of the IPC in response to arguments made by Respondents in the District Court. See *Hearing on H.R. 3119, A Bill "To Amend the Trademark Act of 1946 with respect to the Dilution of Famous Mark", and an Oversight Hearing in a Federal Right of Publicity; State Marketing-Order Commissions and Product Certifications; International Expropriation of Registered Marks; and Patent Extension Review Before the House Subcomm. on Courts and Intellectual Property,* 105th Cong. (May 21, 1998) (statement of Patrick J. Kole, Vice President of Legal and Governmental Affairs, Idaho Potato Commission). This issue presents competing policy issues which are best addressed by Congress. This Court should therefore deny the IPC's petition.

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[4] As discussed earlier, some knowledgeable in trademark law suggest that this very class would be the only one with standing to seek cancellation on this ground. 3 McCarthy, *supra* § 20:61, at 20-116; see *American Auto Ass'n*, 127 U.S.P.Q. at 427.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be denied.

Respectfully submitted,

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March 26, 2004

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APPENDIX

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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97 Civ. 8125 (CLB)

IDAHO POTATO COMMISSION,

Plaintiff,

-against-

M&M PRODUCE FARMS & SALES
d/b/a M&M PRODUCE, M&M PACKAGING, INC.,
MATTHEW J. ROGOWSKI, and MARK ROGOWSKI,

Defendants.

Memorandum and Order

Brieant, J.,

On May 14, 2002, the Court issued a post-trial Memorandum & Order, Findings of Fact and Conclusions of Law ("Memorandum"), in which it ordered the parties to this litigation to submit a proposed final judgment in this certification mark infringement lawsuit. Plaintiff Idaho Potato Commission ("IPC") submitted a proposed Notice of Settlement and a proposed Judgment, both dated May 29, 2002, which Defendants M&M Produce Farms & Sales d/b/a M&M Produce, M&M Packaging Inc., Matthew Rogowski and Mark Rogowski ("M&M" collectively) oppose as to its form and

content. For the reasons set forth below, this Court adheres to its conclusions in the May 14, 2002 Memorandum and orders the Clerk of the Court to enter final judgment in this lawsuit consistent with this Memorandum and Order and all prior orders and proceedings.

The issues before the Court in this litigation are (i) whether Defendants M&M infringed IPC's registered certification marks, and (ii) whether the acts of Defendants M&M deceived another person as to the origin of the potatoes M&M sold. *See* 15 U.S.C. § 1114 and § 1125(a). To resolve these issues, this Court supervised four years of pre-trial litigation terminated by a jury trial. On February 26, 2002, the jury returned a Special Verdict, in which it determined that, with respect to each Defendant, the IPC proved by a preponderance of the credible evidence that during the period September 1, 1995 through April 30, 2001, Defendants sold genuine Idaho grown potatoes in bags labeled with the IPC's certification marks for Idaho grown potatoes without the consent of the IPC. As prompted by the Special Verdict Form, the jury then found that Defendants had earned $41,962.00 from such transactions. The jury also found that, with respect to each Defendant, the IPC had *not* proved by a preponderance of the credible evidence that during the relevant period Defendants had sold as Idaho potatoes, potatoes not grown in Idaho (misbranded potatoes).

It was the theory of Plaintiff's case that Defendants sold misbranded potatoes in bags labeled with the certification marks. Because of a failure of proof at trial, it now appears that the potatoes sold were genuine, although Defendants may well have been unlicenced.

By its post trial Memorandum dated May 14, 2002, the Court concluded that the Clerk of the Court shall enter judgment against Plaintiff on Counts II and III of its Amended Complaint dated June 12, 1998, the federal claims for

trademark dilution and false designation of origin under 15 U.S.C. § 1125(a) and (c); based on the jury's conclusion that the IPC failed to prove that M&M had falsely labeled bags of non-Idaho potatoes with the IPC certification mark. *See* Memorandum May 14, 2002 at 13. The Court reached the same conclusion with respect to Counts IV through VII, the corresponding state law claims. The Court adheres to this decision.

With respect to Count I of the Amended Complaint, the federal infringement claim under 15 U.S.C. § 1114, the Court concluded in its Memorandum that the jury verdict, which found that M&M had earned $41,692.00 in profits should be vacated, because the evidence bearing on this issue does not sustain the right to recover monetary damages in that amount. *See* Memorandum at 13. This Court held that as a matter of law, M&M was not liable to the IPC for damages because the IPC's certification mark rights required that it grant a license to re-sellers of genuine Idaho potatoes. Because the jury concluded that the IPC had failed to prove that M&M had sold counterfeit potatoes, no damages can be awarded simply because Defendants failed to seek a license and pay the licensing fees. The Court upheld the IPC's right to enforce its licensing scheme, and therefore, determined that injunctive relief would be appropriate to enjoin M&M from selling genuine Idaho potatoes using the certification mark in the future without a license.

The IPC now requests the Court to revisit this issue, predicting that its effect will be catastrophic upon all certification mark licensing schemes. Specifically, the IPC contends that no incentive remains for a purchaser, packer, seller, reseller or repacker ever to obtain an IPC license and pay a licensing fee because the IPC has no recourse if a party uses its certification mark without a license.

The Court disagrees. First, the Court has upheld and continues to recognize the validity of the certification mark owner's license requirement, as well as a certification mark owner's right to ensure the genuine origin of goods labeled with its mark through licensing fees, marketing and advertising, and periodic audit and inspection. In its Memorandum, this Court, bound by the ruling of our Court of Appeals in *Community of Roquefort v. William Faehndrich, Inc.*, 303 F.2d 494, 497 (2d Cir. 1962), simply reaffirmed the obligation of a certification mark owner to grant its license to those who sell a genuine product. Here, the jury determined that the IPC failed to prove that M&M sold counterfeit potatoes from September 1, 1995 through April 30, 2001. Without more evidence that M&M was engaging in counterfeit sales, the IPC, by virtue of its status as a certification mark owner, did not have the right to recoup the profits of M&M from sale of genuine Idaho potatoes. In the entry of Judgment, any court is bound by the trial record of the issues as actually litigated. The entire focus of plaintiff's proof of damages was addressed to misbranded potatoes. As to any such sales, recovery of profits would have been an appropriate measure of damages. There were none. Perhaps, had it chosen to do so, Plaintiff could have presented to our jury an alternate theory of damages, if, as turned out to be the case, the offense of Defendants was not misbranding, but simply failure to take a license for the repacking of genuine Idaho potatoes. In such a situation, the damages would at most be the withheld fees, plus the reasonable costs of obtaining an injunction against further violation. For obvious reasons of trial tactics, Plaintiff did not present an alternative damage theory in the event the jury found, as it did, that the misbranding claim failed. Having so tried the case, Plaintiff may not now reopen the record to present another theory of damages to fit the facts as found.

In any event, the Court need not reach the issue of whether certification mark infringement occurs in the case of a former licensee who continues to sell genuine product, post-revocation

of a certification mark license agreement. A prior licensee enjoys some protection when selling genuine products without a license because no fraud is perpetrated upon the consuming public: the product is what it purports to be, and the consumer pays for what it gets. *See* Memorandum of May 14, 2002 at 18.

The IPC contends that it revoked M&M's license in February 1995 because M&M failed to keep adequate records. M&M contended during trial that the required records were destroyed during a warehouse fire, and thus it failed to comply with the document requirements of the IPC license. The jury was not asked by either side to determine whether this testimony about the fire, easily verifiable, was true, but here was no contrary evidence concerning the destruction of Defendants' records. This testimony is entitled to a presumption of regularity by this Court and the record at trial therefore does not provide the IPC with an excuse for not granting M&M a license.

Based on the jury's finding and the law in this Circuit with respect to certification marks, the Court concludes that liability in the form of money damages for certification mark infringement will not lie on this trial record, in which the quantum of such damages could have been litigated, but for tactical reasons was not, nor may profits be recovered as damages in any case where the certification mark licensor denies a license to the seller of a genuine product. Equitable relief is the appropriate remedy in such a case. A court may order the seller enjoined from such sales without a license, but will not award the licensor damages for infringement where it unlawfully refused to grant a license. The availability of equitable relief avoids rendering meaningless all certification mark licensing schemes, as now predicted by the IPC.

In various letter briefs, the latest of which is dated June 10, 2002, Defendants ask this Court to "enter a mandatory

injunction" compelling IPC, in effect, to license the Defendants. This application is denied without prejudice. The issue was not litigated in this case, and it is time for this Court to bring this case to an end. In passing, we are somewhat surprised that having been unjustly accused of serious wrongdoing by the IPC, Defendants apparently desire to enter into a relationship with IPC's present management to become a licensed reseller of Idaho potatoes, and to use this Court's equitable powers, rather than arms length negotiation, to achieve such a result. While Idaho potatoes enjoy a certain cachet and command a market premium, there are other fine russet baking potatoes, just as there are blue cheeses other than Roquefort, and the right to repack them seem hardly the key to happiness. A license arrangement compelled by a court is likely to lead to frequent visits of high priced auditors to the Rogowski homestead.

Conclusion

It is time for this litigation (more than 300 separate docket entries over four and one-half years) to come to an end in this Court. No more papers or letter are to be filed except for Notices of Appeal.

A judgment has been signed.

SO ORDERED.

Dated: White Plains, New York
June 11, 2002

CHARLES L. BRIEANT
Charles L. Brieant, U.S.D.J.

15 U.S.C. § 1052(e)(2). Trademarks registrable on principal register; concurrent registration

No trademark by which the goods of the applicant may be distinguished from the goods of others shall be refused registration on the principal register on account of its nature unless it–

* * *

(e) Consists of a mark which . . . (2) when used on or in connection with the goods of the applicant is primarily geographically descriptive of them, except as indications of regional origin may be registrable under section 1054 of this title . . . .

(July 5, 1946, ch. 540, title I, Sec. 2, 60 Stat. 428; Pub. L. 87-772, Sec. 2, Oct. 9, 1962, 76 Stat. 769; Pub. L. 93-596, Sec. 1, Jan. 2, 1975, 88 Stat. 1949; Pub. L. 100-667, title I, Sec. 104, Nov. 16, 1988, 102 Stat. 3937; Pub. L. 103-182, title III, Sec. 333(a), Dec. 8, 1993, 107 Stat. 2114; Pub. L. 103-465, title V, Sec. 522, Dec. 8, 1994, 108 Stat. 4982; Pub. L. 105-330, title II, Sec. 201(a)(2), (12), Oct. 30, 1998, 112 Stat. 3069, 3070; Pub. L. 106-43, Sec. 2(a), Aug. 5, 1999, 113 Stat. 218; Pub. L. 106-113, div. B, Sec. 1000(a)(9) [title IV, Sec. 4732(b)(1)(B)], Nov. 29, 1999, 113 Stat. 1536, 1501A-583.)

15 U.S.C. § 1057(a)&(b). Certificates of registration

(a) Issuance and form

Certificates of registration of marks registered upon the principal register shall be issued in the name of the United States of America, under the seal of the Patent and Trademark Office, and shall be signed by the Director or have his signature placed thereon, and a record thereof shall be kept in the Patent and Trademark Office. The registration shall reproduce the

mark, and state that the mark is registered on the principal register under this chapter, the date of the first use of the mark, the date of the first use of the mark in commerce, the particular goods or services for which it is registered, the number and date of the registration, the term thereof, the date on which the application for registration was received in the Patent and Trademark Office, and any conditions and limitations that may be imposed in the registration.

(b) Certificate as prima facie evidence

A certificate of registration of a mark upon the principal register provided by this chapter shall be prima facie evidence of the validity of the registered mark and of the registration of the mark, of the registrant's ownership of the mark, and of the registrant's exclusive right to use the registered mark in commerce on or in connection with the goods or services specified in the certificate, subject to any conditions or limitations stated in the certificate.

* * *

(July 5, 1946, ch. 540, title I, Sec. 7, 60 Stat. 430; Aug. 17, 1950, ch. 733, 64 Stat. 459; Pub. L. 87-772, Sec. 4, Oct. 9, 1962, 76 Stat. 769; Pub. L. 93-596, Sec. 1, Jan. 2, 1975, 88 Stat. 1949; Pub. L. 100- 667, title I, Sec. 109, Nov. 16, 1988, 102 Stat. 3938; Pub. L. 105-330, title II, Sec. 201(a)(3), Oct. 30, 1998, 112 Stat. 3070; Pub. L. 106- 113, div. B, Sec. 1000(a)(9) [title IV, Sec. 4732(b)(1)(B)], Nov. 29, 1999, 113 Stat. 1536, 1501A-583.)

15 U.S.C. § 1065 Incontestability of right to use mark under certain conditions

Except on a ground for which application to cancel may be filed at any time under paragraphs (3) and (5) of section 1064 of this title, and except to the extent, if any, to which the use of a mark registered on the principal register infringes a valid right acquired under the law of any State or Territory by use of a mark or trade name continuing from a date prior to the date of registration under this chapter of such registered mark, the right of the registrant to use such registered mark in commerce for the goods or services on or in connection with which such registered mark has been in continuous use for five consecutive years subsequent to the date of such registration and is still in use in commerce, shall be incontestable: *Provided*, That--

(1) there has been no final decision adverse to registrant's claim of ownership of such mark for such goods or services, or to registrant's right to register the same or to keep the same on the register; and

(2) there is no proceeding involving said rights pending in the Patent and Trademark Office or in a court and not finally disposed of; and

(3) an affidavit is filed with the Director within one year after the expiration of any such five-year period setting forth those goods or services stated in the registration on or in connection with which such mark has been in continuous use for such five consecutive years and is still in use in commerce, and other matters specified in paragraphs (1) and (2) of this section; and

(4) no incontestable right shall be acquired in a mark which is the generic name for the goods or services or a portion thereof, for which it is registered.

Subject to the conditions above specified in this section, the incontestable right with reference to a mark registered under

this chapter shall apply to a mark registered under the Act of March 3, 1881, or the Act of February 20, 1905, upon the filing of the required affidavit with the Director within one year after the expiration of any period of five consecutive years after the date of publication of a mark under the provisions of subsection (c) of section 1062 of this title.

The Director shall notify any registrant who files the above-prescribed affidavit of the filing thereof.

(July 5, 1946, ch. 540, title I, Sec. 15, 60 Stat. 433; Pub. L. 87-772, Sec. 10, Oct. 9, 1962, 76 Stat. 771; Pub. L. 93-596, Sec. 1, Jan. 2, 1975, 88 Stat. 1949; Pub. L. 97-247, Sec. 10, Aug. 27, 1982, 96 Stat. 320; Pub. L. 100-667, title I, Sec. 116, Nov. 16, 1988, 102 Stat. 3941; Pub. L. 106-113, div. B, Sec. 1000(a)(9) [title IV, Sec. 4732(b)(1)(B)], Nov. 29, 1999, 113 Stat. 1536, 1501A-583.)

15 U.S.C. § 1115. Registration on principal register as evidence of exclusive right to use mark; defenses

(a) Evidentiary value; defenses

Any registration issued under the Act of March 3, 1881, or the Act of February 20, 1905, or of a mark registered on the principal register provided by this chapter and owned by a party to an action shall be admissible in evidence and shall be prima facie evidence of the validity of the registered mark and of the registration of the mark, of the registrant's ownership of the mark, and of the registrant's exclusive right to use the registered mark in commerce on or in connection with the goods or services specified in the registration subject to any conditions or limitations stated therein, but shall not preclude another person from proving any legal or equitable defense or defect, including those set forth in subsection (b) of this section, which might have been asserted if such mark had not been registered.

(b) Incontestability; defenses

To the extent that the right to use the registered mark has become incontestable under section 1065 of this title, the registration shall be conclusive evidence of the validity of the registered mark and of the registration of the mark, of the registrant's ownership of the mark, and of the registrant's exclusive right to use the registered mark in commerce. Such conclusive evidence shall relate to the exclusive right to use the mark on or in connection with the goods or services specified in the affidavit filed under the provisions of section 1065 of this title, or in the renewal application filed under the provisions of section 1059 of this title if the goods or services specified in the renewal are fewer in number, subject to any conditions or limitations in the registration or in such affidavit or renewal application. Such conclusive evidence of the right to use the registered mark shall be subject to proof of infringement as defined in section 1114 of this title, and shall be subject to the following defenses or defects:

(1) That the registration or the incontestable right to use the mark was obtained fraudulently; or

(2) That the mark has been abandoned by the registrant; or

(3) That the registered mark is being used by or with the permission of the registrant or a person in privity with the registrant, so as to misrepresent the source of the goods or services on or in connection with which the mark is used; or

(4) That the use of the name, term, or device charged to be an infringement is a use, otherwise than as a mark, of the party's individual name in his own business, or of the individual name of anyone in privity with such party, or of a term or device which is descriptive of and used fairly and in good faith only to describe the goods or services of such party, or their geographic origin; or

(5) That the mark whose use by a party is charged as an infringement was adopted without knowledge of the

registrant's prior use and has been continuously used by such party or those in privity with him from a date prior to (A) the date of constructive use of the mark established pursuant to section 1057(c) of this title, (B) the registration of the mark under this chapter if the application for registration is filed before the effective date of the Trademark Law Revision Act of 1988, or (C) publication of the registered mark under subsection (c) of section 1062 of this title: Provided, however, That this defense or defect shall apply only for the area in which such continuous prior use is proved; or

(6) That the mark whose use is charged as an infringement was registered and used prior to the registration under this chapter or publication under subsection (c) of section 1062 of this title of the registered mark of the registrant, and not abandoned: Provided, however, That this defense or defect shall apply only for the area in which the mark was used prior to such registration or such publication of the registrant's mark; or

(7) That the mark has been or is being used to violate the antitrust laws of the United States; or

(8) That the mark is functional; or

(9) That equitable principles, including laches, estoppel, and acquiescence, are applicable.

(July 5, 1946, ch. 540, title VI, Sec. 33, 60 Stat. 438; Pub. L. 87-772, Sec. 18, Oct. 9, 1962, 76 Stat. 774; Pub. L. 100-667, title I, Sec. 128(a), (b), Nov. 16, 1988, 102 Stat. 3944; Pub. L. 105-330, title II, Sec. 201(a)(9), Oct. 30, 1998, 112 Stat. 3070.)

15 U.S.C. § 1119. Power of court over registration

In any action involving a registered mark the court may determine the right to registration, order the cancellation of registrations, in whole or in part, restore canceled registrations, and otherwise rectify the register with respect to the registrations of any party to the action. Decrees and orders shall be certified by the court to the Director, who shall make appropriate entry upon the records of the Patent and Trademark Office, and shall be controlled thereby.

(July 5, 1946, ch. 540, title VI, Sec. 37, 60 Stat. 440; Pub. L. 93-596, Sec. 1, Jan. 2, 1975, 88 Stat. 1949; Pub. L. 106-113, div. B, Sec. 1000(a)(9) [title IV, Sec. 4732(b)(1)(B)], Nov. 29, 1999, 113 Stat. 1536, 1501A-583.)